BELL, GOUINLOCK
& COMPANY,
LIMITED
August, 1973

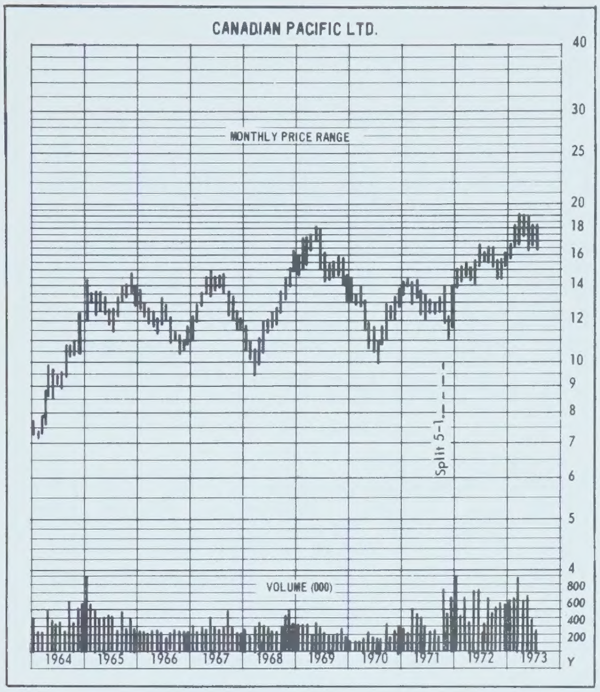
AN ANALYSIS OF

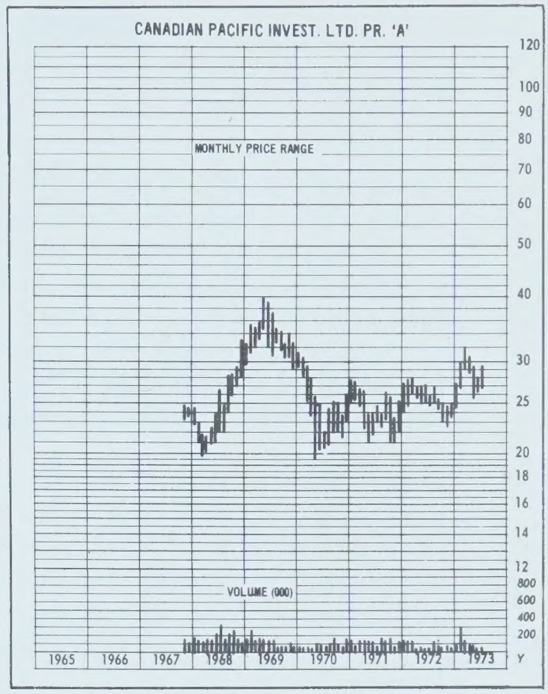
CANADIAN PACIFIC LIMITED
AND
CANADIAN PACIFIC INVESTMENTS LTD.

CANADIAN PACIFIC LIMITED

$18.00 (T.S.E.)

Earnings Per Share 1972	1973E	1974E	Indicated Dividend	Yield %	P.E. Ratio On 1973 Estimate	1973 High	Low
$1.26	$1.78	$2.00	$0.76	4.2	10.1	$19.25	$15.75





Consolidated Capitalization At December 31, 1972

	(000)	% of Total Capital
Deferred Liabilities & Insurance Reserve	$ 22,112	1.1%
Long-Term Debt	267,632	13.5
Perpetual 4% Consolidated Debenture Stock	292,549	14.7
Preferred Stock: $10 Par Value, Redeemable		
Authorized: 24,926,732 Shares		
Issued: 4,543,480 Shares (Series A)	45,435	2.3
Preference Stock: 4% Non-Cumulative		
Authorized: An amt. not exceeding one-half the aggregate amt. of ordinary stock outstanding.		
Issued: Ł872,507 in amounts of Ł1 and multiples thereof	4,246	0.2
-in amounts of $3 and multiples thereof	11,542	0.6
Ordinary Stock: $5 Par Value		
Authorized: 100,000,000 Shares		
Issued: 71,662,280 Shares	358,311	18.0
Retained Earnings	987,198	49.6
	$1,989,025	100.0%

SUMMARY AND RECOMMENDATIONS

1. Canadian Pacific Limited has undergone a transformation over the past 20 years from essentially a railroad subject to rigid government controls, and a shipping company engaged in trans-Atlantic passenger services, to a highly diversified company with interests in most major areas of the Canadian economy. The emphasis of the railroad and shipping operations has shifted toward the movement of freight rather than people. The growing earnings generated from the various CP holdings are an indication of the company's capable management.

2. After five years of virtually flat earnings, Canadian Pacific Limited reported a 34% earnings gain in 1972 to $1.26 per share. This outpaced the rate of growth of the Canadian economy, and also of many companies characterized as growth-oriented, such as Canadian Tire - 23%; International Utilities - 17%; Moore Corporation - 15%; and Simpsons-Sears - 33%. This accelerated rate of earnings growth is expected to continue in 1973 and subsequent years as such areas as oil and gas, mining, shipping, forest products, and rail operations make greater contributions. Our earnings estimate is $1.78 per share for 1973 and $2.00 per share for 1974.

3. We believe the shares of Canadian Pacific Limited should now be regarded as more than a slow-growth blue chip stock. Because of its significant interests in petroleum, mining and forest products, whose earnings prospects are excellent, and the steadily improving earnings from transportation activities, earnings over the next five years should increase at an average rate of about 10 - 15% annually.

4. In our opinion, the common shares of Canadian Pacific Limited are clearly undervalued, and may be purchased at prices up to $20, which represents 10 times estimated 1974 earnings. For those investors preferring to invest directly in the Non-Transportation sector of CP, the Canadian Pacific Investments, Convertible Preferred shares are recommended at prices up to $32.

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I. INTRODUCTION

Canadian Pacific Limited (formerly Canadian Pacific Railway Ltd.) is a multi-faceted corporation with interests in most major segments of the Canadian economy. This report attempts to analyze the areas which are the main profit contributors and to provide some background information on each of Canadian Pacific's diverse operations. (Please refer to Chart I and Table I.)

Canadian Pacific has origins dating back to the 1880's characterized by its controversial involvement in the railroad development of that era. By joining the west coast of Canada with the more populous Upper Canada, the Canadian Pacific Railway was the instrument which bound Canada together in the years following Confederation. The basic profile of Canadian Pacific as a transportation company with its main input of earnings being derived from its railway assets (estimated at $1.3 billion net value in 1972), has begun to change as a result of the entry into fields such as oil and gas, mining, hotels, logging, portfolio management, etc. This metamorphosis of Canadian Pacific from a transportation company to a multi-faceted holding company was earmarked in history on July 3, 1971, when the company changed its name from Canadian Pacific Railway Company Ltd. to Canadian Pacific Limited.

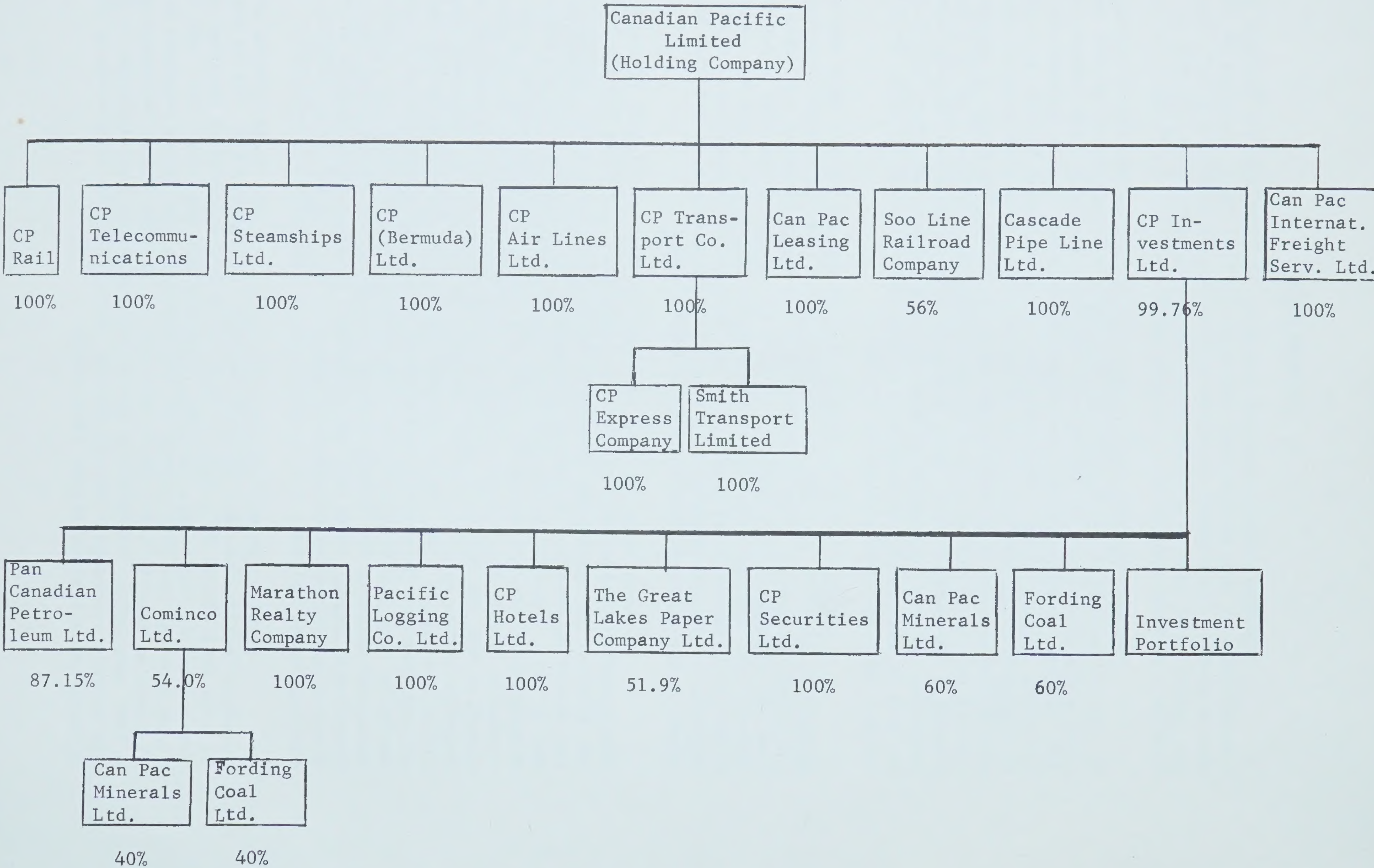
A concise review of such a complex company is not easy and we have attempted to simplify the task by separating the various member companies into two principal categories, Transportation and Non-Transportation. We will first discuss the transportation companies, which are operated directly under Canadian Pacific Ltd. and then the non-transportation companies, which are represented by a specially-formed subsidiary, Canadian Pacific Investments Ltd. (C.P.I.). Our analysis of the investments in mining and oils was carried out with the assistance of our analysts specializing in these areas.

The accounting methods employed by Canadian Pacific Limited and Canadian Pacific Investments Ltd. are not identical. Canadian Pacific Ltd. follows the practice of presenting its financial statements on a non-consolidated basis and providing separate financial statements for the major subsidiaries, C.P.I. and CP Air. Investments in subsidiaries and companies in which minority interests are held are accounted for under the "cost" method, whereby profits are included in income only to the extent of dividends received. It is therefore necessary to add the equity in non-distributed earnings to the reported earnings in order to arrive at CP's reported earnings per share. In contrast, Canadian Pacific Investments Ltd., which contributes the earnings from widespread Canadian natural resource interests, presents its financial statements on a consolidated basis for its four wholly-owned subsidiaries plus 87% owned Pan Canadian Petroleum, and accounts for investments in non-consolidated subsidiaries (Cominco and Great Lakes Paper) under the equity method of accounting, whereby income is reflected in proportion to ownership interest (i.e. a 60% owned company with net earnings of $1 million, C.P.I. would reflect $600,000 in earnings).

Finally, we will present our opinion of the common shares of both Canadian Pacific Ltd. and Canadian Pacific Investments Ltd. It is interesting to note that 63% of CP's common stock is presently owned by Canadian investors, whereas twenty years ago, Canadian ownership was less than 15%. The common stock provides the only avenue of investment in the future earnings potential of Canadian Pacific Ltd., which has over 71 million shares outstanding. The 4 3/4% cumulative, convertible preferred offers the best exposure in C.P.I. at the present, although a market for the common will be developing as the preferred holders convert their shares into common.

CHART I

Canadian Pacific Limited - Corporate Structure



After studying the corporate structure of Canadian Pacific outlined above, it is interesting to note which areas represent the significant investments in terms of asset value, earnings and return on assets. The table below portrays this information based on certain necessary assumptions as to allocation of accumulated depreciation and fixed costs.

TABLE I

CANADIAN PACIFIC LIMITED
Earnings Contribution vs. Assets Employed

	Asset Value Per CP Bal. Sheet (000)	%	Contribution to Net Earns. 1972 (000) Total	E.P.S.	%	Return on Assets
Cdn. Pac. Railway	$1,320,959	63.0	$30,600	$0.41	32.5	2.3%*
Cdn. Pac. Investments Ltd.	321,606	15.3	42,300	0.57	44.9	13.2
Cdn. Pac. (Bermuda) Ltd.	172,948	8.3	8,500	0.11	9.0	4.9
Cdn. Pac. Telecommunications	75,907	3.6	4,800	0.06	5.1	6.3
Soo Line Railroad Company	42,415	2.0	5,700	0.08	6.1	13.4
Cdn. Pac. Transport Co. Ltd.	35,227	1.7	750	0.01	0.8	2.1
Cdn. Pac. Air Lines Ltd.	30,000	1.4	5,200	0.07	5.5	17.3
Cdn. Pac. Steamships Ltd.	10,300	0.5	(5,300)	(0.07)	(5.6)	(51.5)
Other Invest., Property, Etc.	86,741	4.2	1,625	0.02	1.7	1.9
Total	$2,096,103	100.0	$94,175	$1.26	100.0	4.5%

* Return on Assets is 4.4% if calculated on the basis of reported rail earnings before interest on long-term debt. Reported rail earnings for 1972 were $57.6 million.

II. TRANSPORTATION

A. Railroad

For the fiscal year 1972, the Canadian Pacific rail operations made a net contribution to earnings of $30.6 million, a 64% increase over the prior year's contribution. These earnings were derived from assets with a net value of approximately $1.3 billion, for a return on assets of 2.3%. Although this is a less than inspiring return on asset investment, the rail operations contributed 32.5% of Canadian Pacific's 1972 net earnings.

Presented on the next page are our estimates of railway operating results for the years 1973 and 1974, along with the actual results for 1971 and 1972.

TABLE II

Railway Projected Income Statement

(In Millions of Dollars)

	--- Actual ---		-- Forecast --	
	1971	1972	1973	1974
Railway Revenues				
Freight	$595.4	$641.7	$705.9	$762.4
Passenger	20.4	19.3	20.0	20.0
Express	5.8	-	-	-
Other	15.4	18.5	20.0	20.0
Subtotal	637.0	679.5	745.9	802.4
-% Change	+ 8.2%	+ 6.7%	+ 9.3%	+ 7.6%
Government Payments	21.8	30.3	30.0	30.0*
Total	$658.8	$709.8	$775.9	$832.4
Railway Expense				
General & Administrative	57.4	56.0	57.1	58.2
Marketing	16.5	17.0	17.5	18.0
Maintenance	236.5	250.0	275.0	297.0
Other	279.3	299.0	328.9	355.2
Total	$589.7	$622.0	$678.5	$728.4
-% Change	+ 5.8%	+ 5.5%	+ 9.1%	+ 7.4%
Reported Pre-Tax Profits	69.1	87.8	97.4	104.0
Income Taxes	23.4	30.2	35.2	38.2
Reported Rail Earnings	$ 45.7	$ 57.6	$ 62.2	$ 65.8
-% Change	+19.0%	+26.0%	+ 8.0%	+ 5.8%

* Normal payments under the National Transportation Act expire in 1974. We are assuming continuance of some type of government subsidies and also the effect of specific payments under the NTA.

Income Taxes Are Calculated As Follows:	----------- $ million -----------			
Reported Pre-Tax Profits	69.1	87.8	97.4	104.0
Less: Estimated Fixed Costs (80%)	27.0	27.0	27.0	27.6
Profit Before Tax	42.1	60.8	70.4	76.4
Income Tax	23.4	30.2	35.2	38.2
Net Earnings Contribution	$18.7	$30.6	35.2	38.2
-% Change	+15.4%	+63.6%	+15.0%	+ 8.5%

The railway industry is characteristically cyclical and operates from a highly leveraged position. When the economy is progressing at an above average rate of growth (6%-8%) railway volume gains strength and profits rise accordingly. Economists are predicting an increase in gross national product during 1973, adjusted to discount the effect of inflation, in the area of 6.25% and 6.50%, and 6.0% for the two subsequent years. At these anticipated rates of growth, the railways should continue to perform well and make a significant contribution to Canadian Pacific's net earnings.

The railways are constantly under attack by various political groups and must defend their position from time to time. The Western provinces are constantly asking for lower rates to make their products competitive in the East. The railways should not be expected to subsidize the profits of Western business through unprofitable rates, e.g., the railways are still hauling western grain for export at rates established in 1897. CP Rail's profits are significantly below their potential due to this situation. The National Transportation Act of 1967 states that competition will be recognized as the primary regulator of freight rates, subject to certain regulations with respect to minimum and maximum rates and continuance of fixed rates on Western export grain.

Labour represents over 50% of railway operating costs and therefore the number of employees and average pay rates are two very important variables in the determination of railway profit. The railways' recent agreement with shopcraft unions provided for an increase in wages, pensions and other benefits totalling 18.7% over two years. Contracts are still to be settled with other employees, and increases in other rate categories will probably be similar. The railway has been successful in holding down labour costs during the past few years by greatly reducing the number of employees. This is possible by sacrificing efficiency up to a certain point, but we believe that further cutbacks in this area will be negligible.

Dieselization was the greatest single technological innovation towards more efficient rail operations over the past 25 years. More recently, there has been the "unit train" concept and "containerization", both having limited applications. These latest two concepts have contributed to earnings but not to any significant degree.

Canadian Pacific reported net railway earnings of $15.0 million for the first quarter of 1973, more than a 100% improvement over first quarter results for 1972, when the railway was hindered by excessive snow and mud slides, which impeded the movement of freight substantially. Earnings prospects over the balance of the year are somewhat clouded by the effects of strikes by rail employees, and a proposal by Transportation Minister Jean Marchand that rail rates be frozen for a period of 18 months. Because of these uncertainties, we have taken a conservative approach for 1973, and are projecting a 10% increase in railway freight revenues consisting of 7% from volume increases and 3% from rate increases. The final quarter of 1973 will benefit from the 6% increase in "agreed charges" that becomes effective September 1, 1973. Agreed charges are rates in a contract set between a railway and an individual shipper who promises to ship a certain volume each year, and account for about 25% of rail revenues.

Soo Line Railroad

The Soo Line Railroad operates in the U.S. mid-west and is a principal mover of grain, lumber, chemicals and other products over its estimated 4,600 miles of track. Canadian Pacific has the controlling interest with 56% ownership.

This railroad experienced substantial increases in labour and related costs during 1972, which completely offset the benefits from the increase in revenues generated by general freight rate increases. Their remarkable 34% growth in earnings during 1972 was solely attributable to the ability to handle additional business as a result of innovative cost controls.

In comparison with the 1972 first half, Soo Line has increased net earnings by 85%, increased number of revenue cars handled by 15%, and increased the movement of farm products by 85% in the first half of 1973. The company is awaiting delivery of $13 million of new rolling stock scheduled for delivery before the end of 1973.

	Actual				Estimate
	1970	1971	1972	1973 (6 mos.)	1973
Earnings ($Millions)	$ 6.63	$ 7.73	$10.32	$10.05	$18.00
CP's Equity (56%)	3.71	4.33	5.78	5.63	10.08
Earnings Per CP Share	0.05	0.06	0.08	0.08	0.14

B. Steamships

CP (Bermuda)

This wholly-owned subsidiary of Canadian Pacific, with its headquarters in Hamilton, Bermuda, ranks number three in asset value and in earnings contributions to Canadian Pacific. This subsidiary was formed in 1964 to operate and charter ocean-going bulk carriers. By the end of 1974, it will have a diversified fleet of 6 modern crude oil tankers, 5 refined oil product tankers and 8 bulk carriers with a total tonnage in excess of 1.6 million DWT. The total world tanker capacity is currently approximately 215 million DWT. Several ships are scheduled for delivery late in 1973 and 1974, which should have a very favourable impact on 1974 earnings.

CP (Bermuda) reported its first earnings in 1965 when the 13,000 ton "R. B. Angus" was put into operation. Earnings of this subsidiary were not disclosed in the annual report prior to 1971, when profits of $6.8 million were reported from normal operations and an additional $4.3 million from the lucrative spot charter trade. Due to the delivery of a new super tanker three months ahead of schedule in June, 1971, CP (Bermuda) was able to profit from high spot charter rates. In 1972, this subsidiary reported earnings of $8.5 million, a 25% gain over 1971 earnings from normal operations. We are projecting a 20% increase in earnings for 1973, in view of the addition of one 30,000 ton refined oil product tanker available for the spot charter market, and possible interest savings realized on debt retirement from a high cash flow. We are estimating a similar rate of earnings growth in 1974, due to the addition of nine new ships during 1973 and 1974, which will double present shipping capacity. By 1975, with these new ships in operation, we believe CP (Bermuda) could report earnings of $16-$17 million, or about double the 1972 earnings level.

There are two major factors determining demand for oil tankers:

1. Extent of U.S., European and Japanese imports of oil.
2. Worldwide availability of crude oil supplies.

The U.S., Europe and Japan are currently importing great quantities of oil as a result of increased usage and inadequate reserves. Therefore, demand for transporting crude oil from the Middle East, Venezuela and Africa, will continue to increase in the foreseeable future.

Below is a table indicating the fleet of ships owned by CP (Bermuda) Ltd. and how they are employed.

TABLE III

	Type of Ship	Year Placed Into Operation	Nature of Operation
* 1	13,000 Ton Bulk Carrier	1965	Carries lead & forest products, Canada-Japan.
2	71,500 Ton Motor Tanker	1966	10 year charter - Shell Int. Marine Ltd.
3	27,700 Ton Dry Bulk Carrier	1968)	8 year charter to Canadian Transport Co. Ltd. (A subsidiary of MacMillan Bloedel) for
4	27,700 Ton Dry Bulk Carrier	1968)	movement of B.C. forest products to U.K. & phosphate rock from Florida to Port Moody,
5	27,700 Ton Dry Bulk Carrier	1969)	B.C.
6	16,000 Ton Log & Lumber Carrier	1969	Service between Pacific Coast of North America & Japan.
7	58,000 Ton Bulk Carrier	1969	Long-term contract for moving coal and ore.
8	58,000 Ton Bulk Carrier	1970	Movement of coal, Australia to Japan.
9	250,000 Ton Super Tanker	1970)	2 million bbl. crude oil capacity. Chartered
10	250,000 Ton Super Tanker	1971)	to Gulf Oil Corporation - Long-term contract.
11	30,000 Ton Refined Oil Product Tanker	1973	Available for spot charter market.
	- Not Delivered Yet -		
12	30,000 Ton Refined Oil Product Tanker	1973)	Chartered to a large international oil com-
13	30,000 Ton Refined Oil Product Tanker	1973)	pany.
14	120,000 Ton Bulk Carrier	1973	
15	30,000 Ton Refined Oil Product Tanker	1974	
16	30,000 Ton Refined Oil Product Tanker	1974	
17	250,000 Ton Crude Oil Tanker	1974	
18	120,000 Ton Bulk Carrier	1974	
19	120,000 Ton Bulk Carrier	1974	

* "R. B. Angus" was lost at sea and replaced in 1967.

CP Steamships

Canadian Pacific's second wholly-owned shipping company is CP Steamships with its headquarters located in London, England. This company is involved in the highly competitive Canada - U.K. "container" shipping market which was first developed in 1969 by Manchester Lines. It seems that all parties involved in the exporting and importing of goods favour the economics of the container system and, as a result, competition has become intense in this potentially lucrative market. CP Steamships was a member of the Canada - Europe Freight Conference up to July 1, 1972. It withdrew from the conference at this time due to severe price competition caused by disagreement over inland freight charges. In order to attract business, shipping companies were offering ridiculously low rates for inland freight in the U.K. and, as a result, profits were sharply decreasing. By withdrawing from the conference, CP Ships has decided to compete on the open market.

Due to port strikes in Canada and the U.S. in 1972, CP Steamships reported a $5.3 million loss for the year. The first quarter of 1973 was unprofitable with losses just below the $1 million level. We are estimating a profit of $1 million for 1973 in light of better rates and more efficient handling of containers at Wolfe's Cove container terminal at Quebec City. CP Steamships is spending $2.3 million on improvement of storage, handling and turnaround time of its ships, and this should significantly benefit longer-term earnings prospects.

Other Shipping

CP operated two large ocean passenger liners called the "Empress of England" and the "Empress of Canada" until late 1971. Both ships have been withdrawn from operation and sold due to unprofitable results for the past several years. Severe competition from the airlines and decreasing profit margins were the reasons for their ultimate removal.

B.C. coastal vessels are operating at a profit, whereas the Bay of Fundy is operating at a loss with its new ship "Princess of Acadia". Neither company is significant to CP's shipping operations.

C. CP Air

CP Air competes with the government-owned and operated Air Canada on approximately the same basis that CP Rail competes with its government counterpart, CN Railways. CP Air earned $3.4 million less than Air Canada in 1972, but also utilizes less than a quarter of the assets employed by Air Canada and a quarter of the investment. CP Air's management capabilities are reflected in the 1972 operating results which appear below. It can be seen that CP Air's rate of return is considerably better than Air Canada's, though the latter's income has recently been increasing at a faster rate.

TABLE IV

	1972 Results	
	CP Air	Air Canada
Operating Revenues	9.0% Increase	15.0% Increase
Operating Expenses	7.3% Increase	12.0% Increase
Operating Income	36.1% Increase	68.5% Increase
Net Income	141.2% Increase	437.5% Increase
Net Income	$5.2 Million	$8.6 Million
Return on Revenue	3.0%	1.5%
Return on Assets	2.6%	1.0%
Return on Equity	14.0%	5.7%
Total Assets	$197.0 Million	$834.3 Million

CP Air was formed in 1942 with the amalgamation of 10 small independents. Thirty years later, CP Air has flights covering the world, transporting passengers to exotic places such as Tokyo, Hong Kong, Rome and in the near future, China. CP Air has reached a period in its development where international travel is increasing at a more rapid pace than domestic travel. Management is expecting international travel to increase at a faster rate than the 8% recorded for domestic travel over the past five years.

Over 80% of CP Air's operating revenues are derived from the passenger market, whereas less than 8% represents cargo revenue, a by-product of flying passenger aircraft. With the addition of two 747's to the fleet in 1974, CP Air will have a greater capacity for hauling freight and increased potential for profits from this underdeveloped area.

CP Air leases sixteen aircraft at present, eleven Douglas DC-8's and four Boeing 727 aircraft from its parent CP and one Douglas DC-8 from Can Pac Leasing Ltd., another CP subsidiary. For financial statement purposes, these assets are treated as though they are owned. They are depreciated over an estimated useful economic life of approximately twelve years on a straight-line basis. CP Air also owns seven 737's which brings the total aircraft fleet to 23.

During 1973, CP Air is carrying out an extensive modification and refurbishment of eleven of its twelve DC-8's at a cost of $5.3 million, which will be spread over the remaining lease payments to CP and Can Pac Leasing.

For 1973, we are estimating a flat year, $5.0 million profit, due to disappointing fare adjustments that do nothing more than cover increased operating costs. However in 1974, we are conservatively projecting a 20% increase in profits, as a result of the two new 747's entering service early in the year. Beyond 1974, we believe CP Air will benefit significantly from growing air freight revenues, greater efficiency of larger 747 aircraft, and the expanding routes which the company has obtained.

D. <u>Telecommunications</u>

The area of telecommunications is represented by a joint venture between CN and CP. Together, they own and operate a Trans-Canadian microwave radio relay system that covers the country from Montreal to Vancouver and interconnects with the Western Union Telegraph Company in the United States. They also operate a service known as Broadband Exchange Service, which is designed to gear communications to the computer age by providing for high-speed data transmission and voice communication. CN-CP has just introduced a high-speed digital data transmission service called <u>Infodat</u> that transmits information at much greater speeds than previously possible. This service has been brought on stream to compete with Trans-Canada Telephone System's Dataroute. CN-CP claims that Infodat offers rates that are 25% less than those presently available.

CP Telecommunications holds 4% ownership in Telesat Canada, a public-private government organization set up to own and operate Canada's domestic communication satellites. Telesat is to be 40% owned by the federal government, 30% owned by the users of the system (CP, CN, Bell Canada, etc.) and 30% by the public. We do not expect profits from Telesat for the immediate future in light of start-up costs and until all the available channels are rented.

Telecommunications earnings have grown at an average annual rate of 20% over the last eight years and in 1972 increased by 37%. We anticipate a 20% growth rate level for 1973, generating after-tax earnings of $5.8 million (taxes and fixed costs are estimated). Earnings have demonstrated a remarkable

historic growth rate due to the constant technological changes in equipment and an ever-increasing demand for data that can be communicated within seconds.

E. Trucking

CP Transport Ltd. serves as the holding company for CP's trucking interests, CP Express, CP Transport and Smith Transport. Up until 1971, these three trucking companies were separate entities operating autonomously. CP management felt that by bringing these companies together under one central management, within the framework of a holding company, that they could increase profits by reducing overhead costs and also facilitate their marketing program. The 1972 operating results reflected this new strategy with profits in the black, an improvement over 1971's loss.

The CP Transport Ltd. trucking operations are the largest in Canada and rank as one of the largest in North America. In the Western sector of Canada, CP Transport is involved in moving bulk and heavy haulage traffic and also handles the import-export container traffic. From the Lakehead Region to the Eastern Seaboard, Smith Transport is involved in the carrying of all types of commodities utilizing relatively new trucks and equipment. Also operating in the East is the third trucking division, CP Express, which is responsible for the land movement of ocean-going containers and the movement of freight to and from the railroads.

Profits for the trucking industry follow somewhat the same pattern as that of the railroads, in that they move in correlation with the strength of the economy. Assuming that the economy will continue strong for the next few years, a healthy environment should continue for the trucking industry. We are forecasting profits between the \$1 - \$2 million range for the next two years.

F. Other Interests

Can Pac Leasing

CP is entering the equipment-leasing business through this relatively new subsidiary, which plans to start with office furniture and fixtures only on a large scale basis. At the present time, Can Pac Leasing owns a DC-8 aircraft which it leases to CP Air and is involved in a few other minor areas.

Cascade Pipeline Ltd.

This company was formed to study and research the prospects of building a 490-mile pipeline from the Kootenay area of B.C. to the coast, for the movement of coal in slurry form. The research is complete and management has decided that there is not yet sufficient volume to make such a pipeline economically feasible. They are going to research the possibility of further rail investment for this project.

Can Pac International Freight Services Ltd.

This holding company was formed last year to provide services related to the movement of freight between Canada and other nations. A Customs Brokerage House in Montreal called Mendelson Ltd. was purchased by this new subsidiary last year. In addition to customs brokerage, Can Pac International Freight Services Ltd. will also be involved in ship agency and the operation of sufferance warehouses.

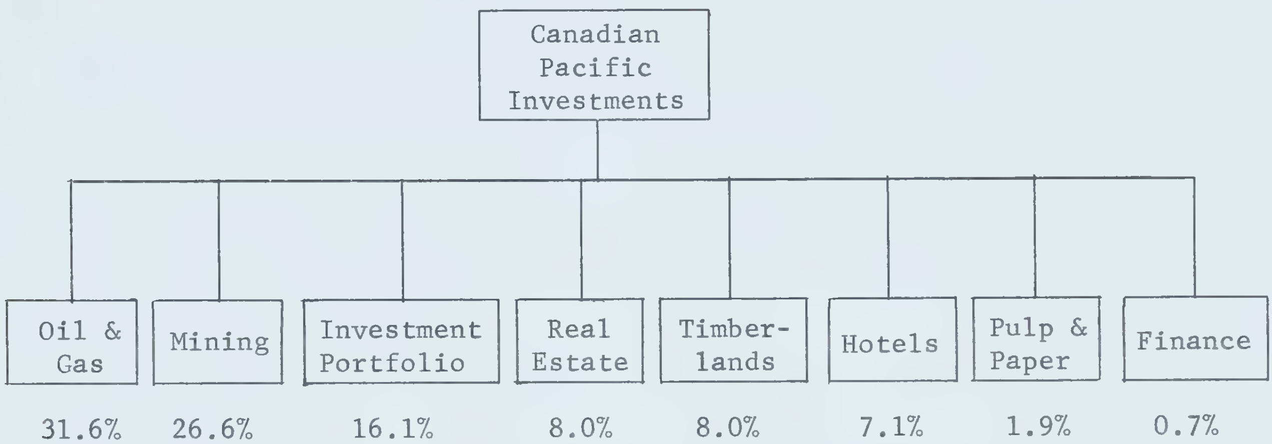
III. NON-TRANSPORTATION

Canadian Pacific Investments Ltd.

Canadian Pacific Investments Ltd. is a diversified holding company established by its parent company, Canadian Pacific Ltd., in 1962 to manage its non-transportation interests. This company's holdings represent a good cross section of the Canadian economy.

The following chart portrays the percentage earnings contribution by each of the various areas for 1972:

CHART II



A. Oil and Gas

This area is represented by C.P.I.'s 87% holding in Pan Canadian Petroleum, previously Central-Del Rio Oils and Canadian Pacific Oil and Gas Ltd.

This company is experiencing good earnings growth and will continue to do so in the future due to the world energy crisis. Oil and gas reserves are not able to maintain a rate of growth commensurate with that of demand. As a result, the price of crude oil per barrel has increased by approximately 19% since November 1972, and further increases are anticipated for 1973. The price of natural gas is predicted to increase this year by approximately 60% per MCF over previous levels.

The acquisition of Trans Canada Petroleums Ltd. (name changed to Pan Canadian Gas Products Ltd.) from TransCanada PipeLines Ltd. as of January 3, 1973 will have a favourable effect on Pan Canadian's earnings. This acquisition has added a significant amount of natural gas and oil reserves, a net acreage of 2 million acres (80% of which is in the Hudson Bay and Gulf of St. Lawrence) and a 50% interest in an extraction plant at Empress, Alberta to Pan Canadian's assets.

Another important aspect of Pan Canadian is its 9.03% interest in Panarctic Oils Ltd. This industry-government consortium is exploring in Canada's Arctic Islands and has had several gas and oil discoveries to date. This investment will certainly not contribute to Pan Canadian's earnings for several years yet, but any significant oil or gas discoveries could potentially affect the market values of both Pan Canadian's and C.P.I.'s common stock.

We estimate that in fiscal 1973 Pan Canadian will experience a growth rate in earnings of approximately 50% for the following reasons:

1) Pan Canadian is continuing to increase production capacity through secondary recovery projects, such as the Countess Waterflood project. This project bolstered oil production by 6,000 barrels per day in 1972 and is expected to increase 1973 production proportionately.

2) The pricing structure of crude oil has been moving substantially upwards as a result of the global energy problem and the demands being made by the OPEC countries. Natural gas prices are expected to increase in the latter part of 1973, when one-third of Pan Canadian's gas sale contracts come up for renegotiation.

3) The Empress extraction plant will contribute to earnings significantly as it continues to increase its capacity, improves its operational efficiency and eventually obtains a permit to export ethane to the U.S. mid-west.

Our 1973 projected earnings for Pan Canadian Petroleum is $23 million or $0.25 per CP common share. For 1974, a further increase to about $27 million or $0.25 per CP common share is anticipated, on a fully-diluted basis.

B. Mining

Cominco is the major mining subsidiary of Canadian Pacific Investments Ltd. (54% owned) and contributes substantially to C.P.I.'s net earnings ($11.3 million or 26.6% of C.P.I.'s 1972 earnings). C.P.I. Ltd. includes Cominco's earnings on an equity basis, and Cominco consolidates the results of all subsidiaries where the interest exceeds 50%. Earnings of Cominco's non-consolidated subsidiaries are reported on a cost basis.

The main products are lead, zinc, chemicals and fertilizer derived mainly from two mines; the Sullivan Mine and Pine Point Mines (69%). Cominco is actively involved in other areas such as zinc die casting and plating plants, a steel plant, a hydroelectric utility and Panarctic Oils Ltd. (9%).

In the last decade Cominco has had a superb record of resource acquisition and smelter expansion, both in Canada and world-wide as is categorized below:

a) Zinc-Lead

Smelters

British Columbia - Trail
India - Binani - Zinc
Japan - Mitsubishi - Cominco
Europe - To be built.

Mines

Kimberley, B.C. (100%) - 30 years life
Pine Point, N.W.T. (95%) - 10-20 years life
Greenex, Greenland (61.5%) - 10-20 years life
Magmont, U.S.A. (50%) - more than 20 years life
Arvik, N.W.T. (75%) - at least 20 years life (undeveloped)
Rubiales, Spain (63%) - 10-20 years life (undeveloped)

b) <u>Gold</u>

Con Mine, N.W.T. - 10-20 years life

c) <u>Copper</u>

Valley Copper (70%) - 50 years life
Smelter to be built in B.C., thus reducing B.C. royalties to a minimum.

d) <u>Coal</u>

Fording Coal (40%) is expected to become profitable by 1974.

e) <u>Potash in Saskatchewan</u>

Resources adequate for 100 years production.

f) <u>Oil and Gas</u>

9.0% interest in Panarctic Oils Ltd.

g) <u>Tin and Tungsten</u>

Aberfoyle, Australia (55%)

Other metals produced by Cominco are silver, cadmium, bismuth, indium and mercury.

We estimate Cominco's 1973 earnings per share to be $2.55 as opposed to $1.24 in 1972. This is a 105% improvement over the prior year, which we feel to be a major positive factor in assessing C.P.I. Ltd. This estimate is based on the following factors:

1) Zinc and other base metals have been experiencing price increases as a result of recent currency realignments and increased demand from primarily the U.S., Europe and Japan. We estimate an effect on earnings of $0.36 a share before taxes or approximately $0.235 a share after taxes from a one cent per pound price increase in zinc.

2) The third quarter of 1972 contributed poorly to earnings due to a strike at Cominco's smelting plant in Trail, B.C. We do not anticipate further labour disruptions during the fiscal year of 1973 for any of Cominco's operations.

3) The potash mine in Vade, Saskatchewan will be operating again this year after being shut down since 1970 due to flooding. This mine, due to prorationing, is required to operate at 65% of its estimated 1.2 million ton capacity.

TABLE V

Cominco Ltd.

Earnings Per Share

	1st. Quarter	2nd. Quarter	3rd. Quarter	4th. Quarter	Total	Earnings Per C.P.I. Share	Earnings Per CP Share
1972	$0.32	$0.43	$0.03*	$0.46	$1.24	$0.23	$0.16
1973	$0.48	$0.65	$0.71E	$0.71E	$2.55E	$0.43+	$0.30

* Strike at Trail, B.C. smelting plant.
\+ Assumes 50% conversion of the preferred shares.

We feel Cominco's earnings and cash flow will continue to increase in the future based on the long life of its present operations, plus the addition of the high-grade (20% combined lead and zinc) Greenex Mine by the end of 1973, and in later years the Arvik Mine (in excess of 20% combined lead and zinc).

Cominco's outlook for the medium-term future is that it will increase its share of the global zinc and lead market plus potentially becoming a major producer of copper. Strong earnings gains are anticipated for the next five years.

In addition to Cominco, C.P.I. has a 60% direct interest in Fording Coal, with the remaining 40% held indirectly through Cominco. Fording has major coking coal deposits located at Fording River in the Crowsnest area of British Columbia. The company's operations are being financed through $70 million in bank loans and $16 million from equity. Contracts are held to supply Japanese customers with three million tons of coal per year over 15 years. In 1972, because of delays due to labour problems in the B.C. construction industry, and late equipment deliveries, the start-up of the coal washing plant was delayed, and only one million tons of coal were delivered. Because 1972 was considered a start-up year, the loss was capitalized and will be written off against future earnings.

In April, 1973 Fording announced that an interim coal price adjustment had been agreed to by its Japanese customers, with further negotiations toward a final price adjustment scheduled for later this year. In the first half of 1973, Fording Coal lost approximately $5.7 million, and management anticipates that losses will continue throughout the year, with profitable operations beginning around the end of the year. In our estimates, we have assumed that Fording Coal will show losses of about $7.5 million in 1973, and achieve profits of $1.0 - $2.0 million in 1974.

C. Investment Portfolio

C.P.I. manages an investment portfolio consisting mainly of seven common stocks. Each of these investments is related to C.P.I.'s various opera-

tions. This portfolio contributed 16.1% of their 1972 earnings through dividend and interest income. The following table portrays their investments as of December 31, 1972.

TABLE VI

Canadian Pacific Investments Ltd.

Investment Portfolio

	Number of Shares	% of o/s Voting Shares	Cost	Approximate Market Value
			(In Thousands)	
Common Stocks				
Husky Oil Ltd.	452,400	4.69	$ 5,179	$ 8,483
The Investors Group	300,000	4.38	3,650	3,300
MacMillan Bloedel Ltd.	2,574,800	12.33	74,775	64,370
Northern & Central Gas	358,200	2.20	5,015	4,298
Rio Algom Mines Ltd.	1,210,869	9.88	28,280	23,007
TransCanada PipeLines	1,200,000	13.03	44,613	52,800
Union Carbide Canada	825,300	8.25	18,375	13,514
Other			1,627	7,423
			$181,514	$177,195
Preferred Stocks			$ 34,215	$ 35,712
Bonds, Debentures & Notes			$ 13,745	$ 12,745

During the first quarter of 1973, C.P.I. realized an extraordinary gain of $1,038,000 on the sale of shares of Husky Oil Ltd. and Canada Northwest Land Ltd., both of Calgary.

D. Real Estate

Marathon Realty, a wholly-owned subsidiary of C.P.I., provides its parent company with earnings from Canada's expansive real estate market. Unlike Marathon's early years, the bulk of its revenues are now derived from commercial interests, such as Place du Canada in Montreal, Palliser Square in Calgary and Project 200 in Vancouver. A major new project is Metro Centre on Toronto's waterfront.

We do not anticipate significant earnings gains from C.P.I.'s real estate arm for the short-term, but the outlook is good for medium to long-term as various development projects mature and rental revenues increase. Another important factor concerning Marathon's long-term earnings potential is its option on 1,000 acres of prime urban land from C.P.R., before January 1, 1975, for an approximate cost of $5 million.

E. Timberlands

Pacific Logging Company Limited is a wholly-owned subsidiary of C.P.I. engaged in harvesting timber resources in British Columbia. This company's profit has fluctuated over the past several years in accordance with the world demand for lumber. For the past 2½ years there has been a strong demand for lumber due to the economic recovery in Japan, Europe and the U.S., where housing starts have increased at a rapid pace. In mid-April of this year the demand and prices for lumber reached a peak and since then prices to the U.S. have fallen 10% - 20% and demand is levelling off. Prices are still at peak levels to Europe and Japan, but volume to the offshore markets is beginning to wane.

Pacific Logging's earnings have reflected this favourable lumber market with profits up 100% in 1972 and an estimated increase of $8.6 million or 250% in 1973. Longer-term earnings will continue to fluctuate with lumber prices and assuming some further levelling off of prices in 1974, we estimate earnings will be in the $8 - $10 million range.

F. Hotels

Canadian Pacific Hotels Limited was formed in 1963 to manage and acquire the various hotel holdings of C.P. Ltd. These operations have expanded internationally with the addition of two hotels in Mexico and hotels planned for Paris and Tel Aviv. It is a wholly-owned subsidiary of C.P.I. Ltd. and accounted for approximately 7% of C.P.I.'s 1972 net earnings.

C.P. Hotels has been budgeting considerable sums of money for capital expenditures on the renovation of its older hotels, mainly The Royal York Hotel in Toronto. A $20 million mortgage bond was issued in April, 1972 to provide the required capital for these expenditures.

C.P. Hotels' earnings have improved by substantial margins over the last two years and we expect earnings for 1973 to surpass the $3 million earned last year.

G. Pulp & Paper

This major segment of Canada's economy is represented in the C.P.I. corporate structure by a 52% holding in The Great Lakes Paper Company, Ltd. It has been insignificant as a profit contributor to C.P.I. in recent years, but prospects for 1973 and 1974 are excellent. Due to a very strong demand for newsprint in the U.S. and a limited capacity to produce newsprint, the price has increased from $134 per ton to $175 per ton F.O.B., New York. Demand should continue strong throughout 1973 and is expected to remain strong in 1974.

An important factor to be noted is that Great Lakes has begun to diversify its operations and thus serve a wider market. This will give the company the needed stability when newsprint demand eases off. Great Lakes has recently constructed a stud mill in Thunder Bay at a cost of $4.1 million. This mill will become operable in the second half of 1973 at an annual capacity of 50 million board feet of stud lumber.

We are estimating Great Lakes Paper will contribute $3.0 million, or approximately 5% of C.P.I.'s projected $65 million of income for 1973. This is a substantial improvement over 1972, when this subsidiary contributed $0.08 million, or less than 2% of C.P.I.'s $42 million profit.

H. Finance

Canadian Pacific Securities Ltd. is engaged in raising money by way of short-term notes, bank loans and medium-term and long-term debt in order to provide funds for capital projects and working capital requirements of C.P.I.'s associated and subsidiary companies, C.P. and subsidiaries of C.P.

These activities do not provide significant earnings to C.P.I. but act more as a service organization. Therefore, we do not expect C.P.S.L. to provide earnings of any consequence in future years.

I. Summary - Canadian Pacific Investments Ltd.

The following table shows our earnings projection for C.P.I. for the current year expressed in millions of dollars.

TABLE VII

Canadian Pacific Investments Ltd.

Earnings Analysis (Millions)

	Actual 1972 $	First Quarter 1973 $	Forecast 1973 $	Forecast 1974 $
Oil & Gas	13.4	5.1	20.0	23.6
Mining	11.3	2.3*	15.9	28.7
Portfolio	6.8	1.8	6.8	6.0
Real Estate	3.4	0.7	3.7	4.0
Timberlands	3.4	4.3	12.0	10.0
Hotels	3.0	0.3	3.3	4.0
Pulp & Paper	0.8	0.5	3.0	4.0
Finance	0.1	0.1	0.1	0.1
Other	0.1	-	0.1	0.1
Total	42.3	15.1	64.9	80.5

* Fording Coal had a $3.3 million dollar loss in the first quarter and we estimate a loss of approximately $7.5 million for the whole of 1973.

We are forecasting a 53% increase in net earnings for 1973 and a 24% increase in 1974. Mining and oils will continue to contribute over 50% of C.P.I.'s earnings.

IV. FINANCIAL

Canadian Pacific Limited

TABLE VIII

Projected Earnings Contribution
($ Millions)

	Actual 1972	--- Forecast ---- 1973	1974
Railway	$30.6	$35.2	$38.2
C.P.I. *	42.3	59.0	61.9
CP (Bermuda)	8.5	10.2	12.2
Telecommunications	4.8	5.8	6.7
Soo Line Railroad	5.7	10.1	11.9
Truck	0.8	1.0	1.5
CP Air	5.2	5.0	6.0
CP Steamships	(5.3)	1.0	2.0
Other Invest., Property, Etc.	6.3	6.5	6.7
	$98.9	$133.8	$147.1
Preferred Dividends			
C.P.I.	4.7	2.3	-
CP	3.8	3.8	3.8
Total	8.5	6.1	3.8
Net Earnings Available for Common Stockholders	$90.4	$127.7	$143.3
No. of Shares Outstanding	71,660,000	71,660,000	71,660,000
Earnings Per Share	$1.26	$1.78	$2.00
-% Increase	+ 35%	+ 41%	+ 13%

* CP owns 50 million shares of C.P.I. As the 5 million preferred shareholders exercise their 2-for-1 conversion privilege CP's percentage ownership will decline. We are assuming 50% conversion for 1973 and 100% conversion by the end of 1974. All warrants, which expire November 1, 1974, are assumed to have been exercised in 1974. There are 5 million warrants and the conversion of these warrants will add approximately $70 million to the equity of C.P.I. Ltd.

	1972	1973E (Millions)	1974E
C.P.I. Earnings	$42.3	$64.9	$80.5
CP's Equity	100.0%	90.9%	76.9%
Shares Outstanding	50,000,000	55,000,000	65,000,000

A. Canadian Pacific Investments Ltd. - Earnings Background

TABLE IX

Canadian Pacific Investments Ltd.

Selected Income Statistics

	Years Ending December 31 1965	1968 (000's)	1972	Compounded Annual Growth
Net Income From Operations				
Oil and Gas	$ 7,733	$11,850	$13,385	8.2%
Timberlands	592	2,435	3,365	28.5%
Real Estate	469	1,302	3,365	32.5%
Hotels & Restaurants	608	(443)	2,960	25.5%
Financing	-	150	112	-
Investment Income	21,491	10,405	6,814)	
Equity in Non-Consolidated Subsidiaries	10,969	16,359	12,320)	(7.0%)
Income Before Extraordinary Items	$41,862	$42,058	$42,321	0.15%

Canadian Pacific Investments Ltd. is a relatively young subsidiary of Canadian Pacific and marked its tenth year of operation on July 9, 1972. The reader will note in the table above what appears to be a paradox:

1. Earnings from each area of operations, excluding the non-consolidated subsidiaries, have improved significantly over the seven-year period.

2. Total net earnings have remained at an almost constant level with virtually no growth.

The unchanged earnings over this period are due to the unfavourable results of the non-consolidated subsidiary, Cominco Ltd. Cominco is a diversified mining company with its main strength centered historically on two zinc-lead mines, The Sullivan Mine and The Pine Point Mine. Cominco's earnings have been reported as follows for the past seven years:

1965		1971		1972
$53.9 million..	70% Decrease..	$16.6 million..	20% Increase..	$19.8 million

Profits in 1972 were approximately one-third of those in 1965. The reason behind the profit slide was the ending of 3-year tax exemption on the profits of The Pine Point Mine and a less than favourable base metals market.

B. Canadian Pacific Investments Ltd. - Outlook for 1973 and Beyond

Canadian Pacific Investments Ltd. is enjoying an excellent year in 1973, with profits projected at $64.9 million or a 53% improvement over 1972.

This is a 30% improvement over C.P.I.'s previous record year, which was 1966 at $49.7 million, thus the company is finally breaking away from its historically flat earnings trend line. Earnings from each of its areas are expected to increase in 1973, most notably Pan Canadian Petroleum Ltd., Pacific Logging and Great Lakes Paper. It is particularly interesting to note that the latter two companies have been historically poor earnings contributors. (Refer to Chart II.)

Cominco, which has acted as an earnings depressant for several years now, is expected to show extremely good earnings estimated at approximately $43 million or $2.55 per share, a 105% improvement over prior year's earnings. The main impetus behind these strong earnings gains is the tremendous improvement in the prices of zinc and lead. Demand and prices for zinc are now at record levels due in part to a sharp drop in North American smelter capacity and an increase in demand in Europe and Asia. It is estimated that every 1 cent-per-pound increase in the price of zinc ould mean $4.0 million in incremental after-tax profits to Cominco on an annualized basis. The earnings per share projection for C.P.I. is shown under both methods below so that a potential investor can assess the effect of total conversion of the preferred shares and the warrants.

Canadian Pacific Investments Ltd.

	E.P.S.	Fully-Diluted E.P.S.
1973	$1.20	$1.00
1974	$1.51	$1.24

C. Canadian Pacific Ltd. - Earnings Background

TABLE X

Canadian Pacific Limited

Selected Income Statistics

	1969	1970	1971	1972
		(000's)		
Railway Revenues	$580,000	$616,000	$658,800	$709,800
Railway Earnings	34,600	38,400	45,800	57,600
Other Income	19,200	18,200	26,600	20,800
Income Before Fixed Charges	53,800	56,600	72,400	78,400
Fixed Charges	22,400	27,800	33,800	33,800
Income From Railway and Miscellaneous Sources	31,400	28,800	38,600	44,600
-% Change	-26.6%	- 8.3%	+34.0%	+15.5%
Dividend Income				
C.P.I.	23,000	23,600	23,600	23,700
CP Air	1,400	1,400	1,400	2,200
	24,400	25,000	25,000	25,900
Equity in Earnings Retained by Subsidiaries	16,800	10,400	7,000	23,700
-% Change	- 7.7%	-38.1%	-32.7%	+238.6%
Net Income	$72,600	$64,200	$70,600	$94,200
-% Change	-13.7%	-11.6%	+10.0%	+33.4%
Earnings Per Share	$0.97	$0.85	$0.94	$1.26

Canadian Pacific's earnings mix has changed dramatically in the last ten years, as a result of the company's awareness of the need for diversification into other areas of the economy. It was rumored a few years ago that a group of European investors was interested in gaining control of the company in order to take advantage of its vast assets and potential earnings power. CP was operating with roughly $3 billion of assets but receiving a return of a little more than one per cent. It was at approximately this time, that upper management acted upon the realization of the need to more fully utilize CP's assets through various sectors of the economy such as real estate development, oil and gas, mining, hotels, etc. They also were instrumental in switching the emphasis in transportation from passenger to freight, which the U.S. railroads had realized and acted on years ago. For example, Canadian Pacific replaced the unprofitable Empress liners with container ships and spent large sums of money on the development of a fleet of bulk carriers.

In summation, CP has acquired a certain degree of inherent stability in its earnings structure due to its aggressive and successful diversification program. Earnings are no longer solely dependent upon the railroad operation which is subject to the vicissitudes of the economy. This is verified by the growth of earnings from dividends and the equity in non-distributed earnings from investments. (Refer to above chart.)

D. Canadian Pacific Ltd. - Outlook for 1973 and Beyond

Canadian Pacific's earnings outlook for the future is encouraging as this diversified, multi-billion dollar company assumes more and more the characteristics of a growth company. CP's rail operations will continue to inject a healthy portion of corporate earnings but subsidiaries such as CP (Bermuda) Ltd., Pan Canadian Petroleum Ltd., Cominco Ltd., and similar companies with latent earnings potential are now becoming important profit contributors.

We feel that the results of Canadian Pacific's diversification program in coordination with a strong management will assure the company of continued earnings growth in excess of that of the economy or companies of a similar nature.

E. Market Evaluation

We are predicting that a multiple in the range of 12-15 will be assigned to CP stock as it establishes a track record of consistent earnings growth. This stock traded at a multiple of 19 in 1969.

Canadian Pacific stock had a market value as of June 30, 1973 of $1.2 billion on its 72,000,000 outstanding common shares. This is 8% below CP's book value of $1.3 billion. We feel this is an indicator of the stock's undervaluation on the market due to lack of appreciation concerning the future potential of the company.

TABLE XI

Share Price Data

-Canadian Pacific-

Present Price - $18.00

		Price/Earnings Ratio
1972 Earnings Per Share	$1.26	14.3 times
1973 Estimated Earnings Per Share	$1.78	10.1 times
1974 Estimated Earnings Per Share	$2.00	9.0 times

Price Range

	1969	1970	1971	1972	1973 (To Date)
High	$18.30	$14.55	$14.38	$16.75	$19.25
Low	$13.00	$ 9.95	$11.13	$13.88	$15.75
P/E at High	18.9	17.1	15.3	13.3	-
P/E at Low	13.4	11.7	11.8	11.0	-

The five million outstanding Series A, preferred shares currently represent the best means of investment in Canadian Pacific Investments Ltd. due to the poor marketability of the common stock. Each preferred share can be converted into two common shares at the option of the preferred holder up to the close of business on November 1, 1977. As a result of C.P.I.'s recent semi-annual dividend increase to $0.25 per common share and expectations of further dividend increases in the future, the conversion privilege seems very attractive in view of a higher rate of return on the common. We are estimating that approximately 50% of the preferred holders will exercise their conversion option within the next year and create a more liquid market for the common.

TABLE XII

Share Price Data

-C.P.I. Ltd.-

Present Price - $14.50

		Fully-Diluted	Price/Earnings Ratio
1972 Earnings Per Share	$0.75	$0.75	19.3-19.3 times
1973 Estimated Earnings Per Share	$1.20	$1.00	12.1-14.5 times
1974 Estimated Earnings Per Share	$1.51	$1.24	9.6-11.7 times

Price Range - "Preferred Stock"

	1969	1970	1971	1972	1973 (To Date)
High	$40.00	$31.50	$27.88	$28.25	$32.00
Low	$29.00	$19.63	$21.00	$22.25	$24.50

The preferred shares have historically sold at two times the price of the common stock.

We are predicting a multiple in the range of 15-17 for the C.P.I. common shares reflecting its tremendous growth potential through its natural resource subsidiaries, hotel operations and real estate holdings.

V. CONCLUSIONS

Canadian Pacific Ltd. had long operated in Canada as a passenger-oriented transportation company suffering from a tremendous under-utilization of its vast assets. Several years ago, upper management became enlightened to this problem and began to spend large sums of capital on expansion into areas such as containerships, bulk tankers, mining exploration, oil and gas exploration, hotels, real estate development and other promising areas. As these areas develop and mature, their earnings contributions are increasing proportionately and contributing larger shares of total CP profits.

At the current market price, we believe Canadian Pacific's common stock is undervalued in terms of the general stock market climate and also in view of the excellent prospects for continued earnings growth. We feel that the market will assign a higher multiple to this stock as the investment community becomes more aware of CP's broadening earnings base. We view the Canadian Pacific common shares as an attractive investment that should be accumulated at prices up to $20.00.

The C.P.I. "Series A" preferred stock is an attractive investment due to its conversion privilege, the appreciation potential and a fair dividend yield. It is selling below this year's high of $32 and considerably below its record high of $40 established in 1969. We feel this stock has appreciation potential of 25%-30% over the medium-term. The common shares of C.P.I. will attain substantial marketability as the preferred holders convert to avail of a higher yield and more direct appreciation potential. There were 50,135,000 C.P.I. common shares outstanding as of December 31, 1972 of which 50,000,000 are owned by Canadian Pacific Ltd. If all the preferred shares are converted and all warrants are exercised, there will be 65 million shares outstanding of which 15 million will be in the hands of the public.

Investment Research Department

August, 1973.

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